

Findings From The Free File Migration Study

Prepared For:

The Internal Revenue Service

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Introduction

Background, Purpose, Method & Scope

- Since its debut in 2003, Free File has been the point of Federal tax prep and electronic filing for 15M+ returns by Taxpayers with a pre-set AGI – \$52,000 or less in 2006 and \$54,000 or less in 2007, which effectively allows usage by about 70% of all Taxpayers or 95M total.
- Usage data show a large number of Taxpayers using Free File one year, but not returning the next year. There were 1.3M of these “Migrators” in 2007 and most (89%) used another e-file method (59% Online, 20% Practitioner e-file, and 21% Paper).
- The purpose of the Free File Migration Study was to determine why Migrators move to non-Free File methods as well as their future intentions toward resuming usage of Free File (and barriers to resumed usage).
- The study was conducted by telephone Jan 3—Feb 6, 2008, among a list of Migrators provided by IRS. 1,000 FF Migrators were randomly sampled to represent all Migrators. This yielded a readable sub-sample of those moving to other OLF methods (n=594), but the sub-samples of migrators to Practitioner e-file and Paper had to be augmented with additional interviews to bring those two groups to readability (at 500 each). The analysis that follows focuses on Total Migrators and those who migrated to OLF, Practitioner e-file, and Paper.

Key Findings

Key Findings

- Surveyed 8-9 months after the '07 filing season, many Free File Migrators do not remember their '07 filing method (or do not distinguish it from other methods), with one-fifth of them thinking they used Free File.
- This lack of recall of method – together with lack of recall of why they left Free File, an overall positive disposition toward Free File (only 14% would not consider it again and 88% would recommend it to friends and family), and lack of loyalty to the new method (likelihood of use of it is no higher than that of Free File) – indicates an aloofness toward filing method and a lack of strong feeling about which methods they use. Instead, Migrators seem to be driven more by a desire for convenience/ease of use and ready to use whichever method is likely to provide it.
- In line with this, among Migrators who did recall why they switched from Free File, there is very low (only 4%) mention of any “bad experience” with the product. Instead, their top specific reason for migration was “went directly to the website of the company used in 2006” and among those mentioning this (mainly migrators to Other Online Filing Methods), there is some indication that Taxpayers thought they were continuing to use Free File by going back to the '06 provider. However, this does not appear to be a strong negative, as the vast majority say they went back to that provider because they liked them.
- Finally, if there is a barrier to Migrator usage of Free File that the study identifies, it is perceived difficulty of use and some confusion in use. However, these are not major negatives, with mentions by only about 10% of all Migrators as reasons for shifting from Free File.

Detailed Findings

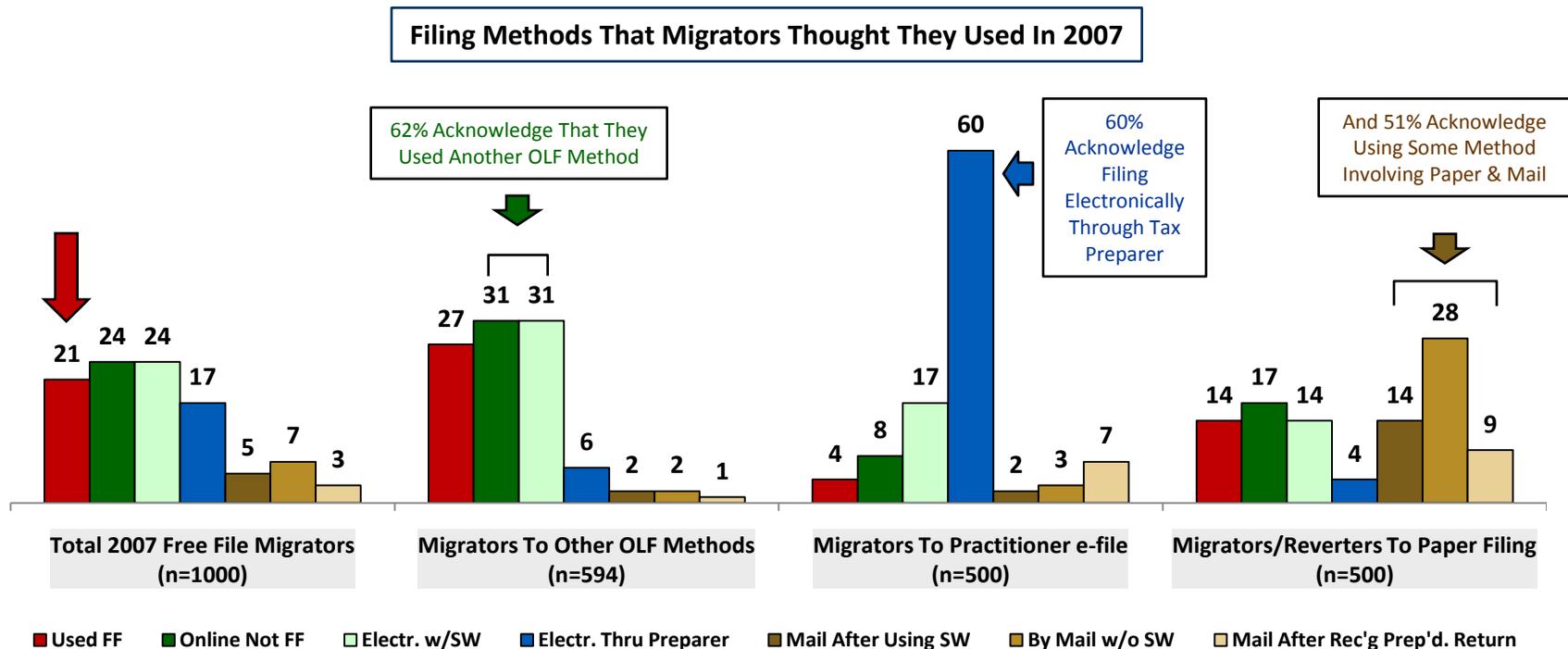
Statistical Notation Used In Detailed Findings

- *A Circle Indicates That One Migration Sub-Group Is Significantly HIGHER Than The Others At The 95% Confidence Level.*
- *A Box Indicates That One Migration Sub-Group Is Significantly LOWER Than The Others At The 95% Confidence Level.*

Other Graphics Are Also Used To Highlight A Group Or Set Of Groups, Or To Indicate A Notable Data Point.

To Understand Migrators, Note Their Uncertainty About Filing Method

- Fully one-fifth of all Migrators from Free File thought they actually used Free File in 2007 (especially if they moved to another OLF method). In addition, only 62% who moved to other Online methods recognized the distinction of those methods from Free File; only 60% who moved to Practitioner e-file acknowledged that they filed “electronically through my Tax Preparer”; and only 51% of Paper filers knew they filed that way. (Keep in mind that the survey was conducted some 8-9 months after the 2007 filing season, which make be accounting for some of the lack of memory of the ‘07 filing method.)



Q6: What method did you use to file your 2007 Federal Income Tax Return?

Migrators Cannot Easily Identify Why They Did Not Free File In '07

- Asked to volunteer their reasons for not using Free File, about 60% of Total Migrators could not name any reason. Among the remainder, there were approximately 80 different responses, but only two as high as 6% in total mentions: “I thought I *did* use it” and “went directly to the website of the company I used in 2006” – both of which came mainly from those who migrated to other Online Filing methods.

Voluntary Reasons For Not Using Free File In 2007

Total Respondents	Total	Total Migrators To...		
	Free File <u>Migrators</u> (1000) %	Other OLF <u>Methods</u> (594) %	Practitioner <u>e-file</u> (500) %	<u>Paper</u> (500) %
<u>Top Voluntary Reasons For Not Using Free File IN 2007</u>				
No real reason/I don't know/I don't remember	31	32	24	34
Don't know why I did not use Free File in 2007	28	30	21	32
Thought I did/I assumed that I did/thought I used it	6	10	0	3
Went directly to the website of the company I used in 2006	6	9	0	1
Didn't think I qualified on the income requirement	4	5	2	3
Had someone do my taxes for me	4	3	4	5
Thought it was going to be free, but it turned out it wasn't free	3	5	1	2
Wasn't aware that I had used Free File the year before	3	4	4	1
Turbo Tax was easier/more convenient/prefer Turbo Tax	3	4	0	1
Did not remember in 2007 that Free File was a tax filing option	2	3	1	2
Tried to use it, but couldn't link to the free websites	2	3	0	1
My taxes became too complicated to use it	2	0	6	2

Q7: Is there any particular reason why you did NOT choose to file in 2007 using Free File at the IRS website after having used it the year before?

Even After Extensive Probing, Many Are Unsure About Use/Non-Use

- Given a list of possible reasons to choose from, Migrators' top mentions still showed uncertainty (see red highlighted mentions). Top specific reasons were that they had gone directly to the website of the '06 provider, did not remember in '07 that FF was an option, and being disappointed at being charged in '06.

Total (Voluntary Plus Prompted) Reasons For Not Using Free File In 2007

Total Respondents	Total	Total Migrators To...		
	Free File Migrators (1000) %	Other OLF Methods (594) %	Practitioner e-file (500) %	Paper (500) %
Reasons For Not Using Free File In 2007				
Was not aware that I had used Free File the year before	27	31	27	19
Don't know why I did not use Free File in 2007	24	16	34	30
Went directly to the website of the company I used in 2006	26	37	6	11
Did not remember that Free File was an option	22	27	18	18
Thought it was going to be free, but it turned out that it wasn't	19	23	12	17
Could not file both state & federal returns using Free File	17	20	12	17
Didn't think I met the Free File income requirement in 2007	15	17	11	12
Tried, but couldn't link to the free websites	13	16	7	11
Didn't feel the Free File website was easy to use as before	11	10	14	13
The website had insufficient or confusing instructions	10	9	12	11
The service did not let me import my prior year tax information	8	7	5	9
Don't trust Free File/had concerns about Internet security	7	6	10	8
No longer had access to a computer/the Internet	7	4	14	9
Had a bad experience with Free File the year before	4	3	5	6
Wanted a Refund Anticipation Loan but Free File no longer offered it	3	2	6	1

Q7: Is there any particular reason why you did NOT choose to file in 2007 using Free File at the IRS website after having used it the year before?

Q8: After I read each one of these, please tell me if it was a reason that you chose NOT to use Free File in 2007 after having used it in 2006.

Having A “Bad FF Experience” Is Not A Major Reason For Migration

- Only 4% (or 36) Migrators selected “had a bad experience” as a reason for not using Free File in 2007.** With such a small base, results here can be analyzed only qualitatively to see what constitutes a “bad experience” – and they show that the top objection related to confusion, especially confusion in instructions, followed by disappointment in that what they thought was free actually involved costs. But, again, keep in mind that there were VERY few “bad experiences” cited to begin with.

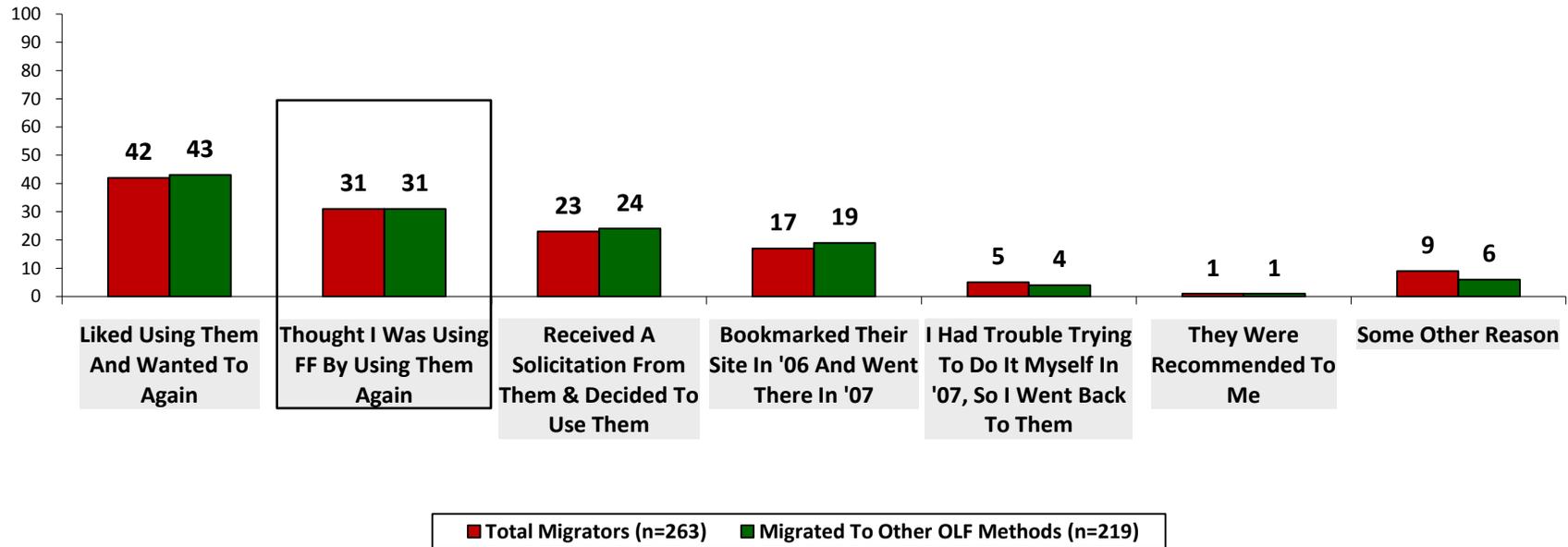
Descriptions Of Bad Experiences With Free File
CAUTION: Small Base – Read Qualitatively Only

	Total Migrators
Total Who Had A Bad Free File Experience	(36) %
It was confusing. (How?) Instructions were confusing	19
It was supposed to have been free, but it wasn't	11
It has problems in filing state tax returns/forms	8
It won't let you correct information/access info to correct it	8
Had to do (re-do) it numerous time before it finally went through	6
It's not very user-friendly	6
It took me a very long time to get my refund/refund came late	6
I couldn't finish it/couldn't finish my filing	6
Owed money due to incorrect information	6
I made a mistake and there's no one there to help catch your mistakes	6
Had problems using/entering/exiting/navigating/downloading from the site	6

Those Who Migrated To The Prior-Year Provider Like That Provider

- As noted earlier, the top specific reason for moving away from Free File in 2007 was “went directly to the website of the company I used in 2006” – with most of these mentions coming from Migrators to Other OLF Methods. Asked why they returned to that provider, most responses indicated satisfaction with the provider. However, about one-third of Migrators (boxed below) said they thought they were using Free File by going back to the ‘06 provider.

Reasons For Choosing To Go Directly To ‘06 Free File Provider

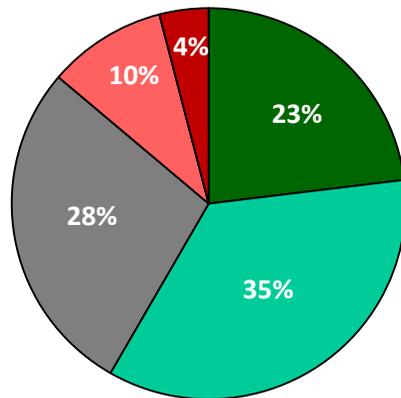


Q10: Which if any of the following describes why you chose to go directly to that company in 2007?

Migrators Are NOT Negative Toward Future Use Of Free File

- Asked how likely they would be to go back to irs.gov and use Free File in the future, only 14% said they definitely/probably would not. 23% “definitely would” use it, with another 35% “probably”, and the rest (28%) neutral.
- However, there were differences by migration segments, with those who migrated to Other OLF Methods being significantly more likely to resume usage of Free File than the other two segments (especially those who moved to Practitioner e-file).

Likelihood Of Using Free File Again In Future



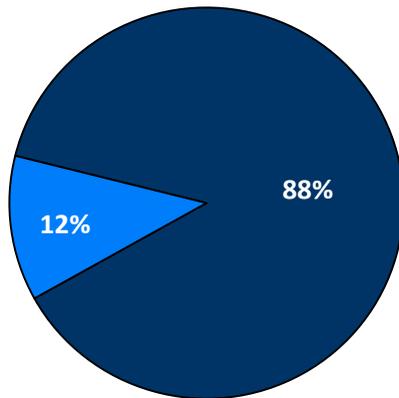
	Total Free File Migrators (1000) %	Total Migrators To...		
		Other OLF Methods (594) %	Practitioner e-file (500) %	Paper (500) %
Total Respondents				
Definitely Will	23	28	13	18
Probably Will	35	35	32	38
Might Or Might Not	28	26	30	29
Probably Will Not	10	7	18	10
Definitely Will Not	4	4	7	5

Q11: How likely are you to go back to the IRS’s website, irs.gov, and use the Free File service at that site in the future?

In Addition, 9 In 10 Migrators Would Recommend Free File To Others

- As an indication of their overall positive disposition toward Free File, **88% of Migrators said they would recommend it to a friend or family member** – with this even higher among those having migrated to Other OLF Methods.
- Note: the 88% “would recommend” figure among Migrators is statistically lower, but still relatively high, when compared to the 97-98% “would recommend” levels found among Free File USERS in the 2006 and 2007 Free File User surveys.

Would Migrators Recommend Free File To A Friend Or Relative?



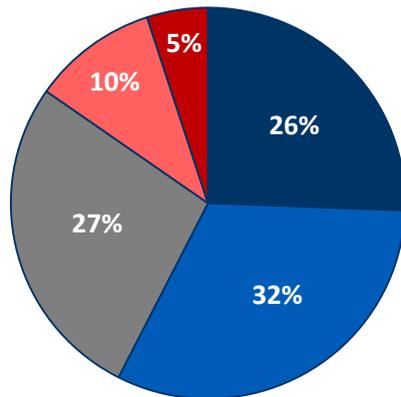
Total Respondents	Total	Total Migrators To...		
	Free File Migrators	Other OLF Methods	Practitioner e-file	Paper
	(1000)	(594)	(500)	(500)
	%	%	%	%
■ Would Recommend Free File	88	91	85	82
■ Would Not Recommend Free File	12	9	15	18

Q13: Would you recommend the Free File program to a friend or family member?

Migrators Do Not Indicate High Loyalty To The '07 Method

- Asked how likely they would be to use the prep and filing method they used in '07 again in the future, there was a VERY similar response to that of Free File earlier. Only 26% said they “definitely” would re-use the '07 method, with other usage intent ratings also statistically the same as those of Free File.
- There were again differences by segment, with those migrating to Paper having far less interest in using the '07 method than the other two segments.

Likelihood Of Re-Using The 2007 Non-Free File Method



Total Respondents	Total Free File Migrators	Total Migrators To...		
	(1000) %	Other OLF Methods (594) %	Practitioner e-file (500) %	Paper (500) %
Definitely Will	26	30	30	13
Probably Will	32	32	27	32
Might Or Might Not	27	25	25	36
Probably Will Not	10	8	12	16
Definitely Will Not	5	5	6	3

Greater Ease/Convenience Is The Key Driver To Other Methods

- Among intended future users of Free File (those who “definitely” or “probably” would use), the top two reasons for use were Ease/Convenience and Cost, whereas for the method migrated to in 2007, the top reason for intended future use was Ease/Convenience, with all other factors far less important.

Reasons For Using Free File In Future vs. Reasons For Using The 2007 Method

	<u>Total Free File Migrators</u>		<u>Migrated To Other OLF</u>		<u>Migrated To Pract'r. e-file</u>		<u>Migrated To Paper</u>	
	<u>Def/Prob Will Use Free File</u>	<u>Def/Prob Will Use 2007 Method</u>	<u>Def/Prob Will Use Free File</u>	<u>Def/Prob Will Use OLF Methods</u>	<u>Def/Prob Will Use Free File</u>	<u>Def/Prob Will Use Pract'r. e-file</u>	<u>Def/Prob Will Use Free File</u>	<u>Def/Prob Will Use Paper</u>
Total Definitely/Probably Would Use (Method) In Future	(579) %	(575) %	(374) %	(367) %	(224) %	(284) %	(280) %	(226) %
<u>Ease/Convenience (net)</u>	34	53	31	58	33	46	42	41
It's easier/more convenient (unspecified)	27	34	25	40	23	23	35	23
All my information is now there (with provider)	0	4	0	6	0	0	0	0
<u>Cost (net)</u>	25	7	29	8	23	6	15	4
It's free/like idea of not paying to do taxes	23	5	28	5	17	4	12	3
Cheap/cheaper than others	2	2	1	2	4	2	2	0
<u>Speed – Can Do Return Faster/Get Refund Faster (net)</u>	7	9	6	12	4	8	11	3
<u>Miscellaneous Positive Mentions</u>								
Will look into it/check it/try it again	6	1	8	1	6	0	6	1
Because I'm now more aware of it/had forgotten about it	6	0	8	0	4	0	4	0
It's a good service/provides good service/like it	6	4	6	4	5	4	4	4
It's more accurate this way	1	4	2	2	0	7	0	2

Are There Barriers To Resumption Of Usage Of Free File?

- Looking for possible barriers to usage among Migrators who were neutral or negative to future use of Free File (28% and 15% of Migrators, respectively), two findings stood out: (1) the Neutrals were in a wait-and-see mode with no strong barriers to use; (2) while the Negatives wanted someone to guide them in their return prep and filing, and found Free File confusing (especially those migrating to Practitioner e-file). Of these, “confusion” would appear to be the only real barrier – and that for only 17% of the 15% who were Negative.

Assessing Barriers To Future Use

	Total Free File Migrators	Other OLE	Migrated To... Practitioner e-file	Paper
<u>Reasons For Neutral Stance Toward Free File</u> – Total <u>Might/Might Not</u> Use In Future	(277) %	(155) %	(151) %	(144) %
Total with completely neutral mentions as response*	68	66	63	71
It's up to the person who helps me with my taxes (preparer/spouse/friend)	18	16	15	17
Depends on situation/deductions/when I get my W-2/how I feel/etc	16	15	16	20
Just haven't decided yet	6	8	11	1
Will try it again if it's truly free	5	8	1	3
Prefer using software/have purchased SW already	4	7	0	1
Prefer having professional/someone else help with doing my taxes	4	3	9	2
<u>Reasons For Negative Stance</u> – Total <u>Definitely/Probably Would Not</u> Use In Future	(153) %	(77) %	(93) %	(97) %
Total with completely negative mentions as response*	94	94	97	91
Prefer having a professional/someone else help with doing my taxes	28	28	50	26
Free File is too confusing/hard to use/too much hassle	17	15	26	12
Financial situation/life has changed and taxes more complex now	14	14	10	11
Prefer using software/have already purchased the software	6	11	0	5
Not comfortable enough/familiar enough with it	6	5	8	8

* Note: not all responses to neutral ratings is neutral and not all response to negative ratings is negative.

Q12: You said you (Might/Might Not OR Probably/Definitely Would Not) use Free File again. Why do you feel that way?

Suggestions For Improvement Also Show No High Barriers

- Almost 6 in 10 Migrators had NO suggestions for improvement of Free File (with most saying it is “fine the way it is”). Among the rest, top suggestions were to make Free File easier to use, increase Taxpayer awareness of it, and make instructions at the site more clear.

Suggested Improvements To Free File

	Total <u>Migrators</u> (1000) %	Other <u>OLF</u> (594) %	<u>Migrated To...</u>	
			<u>Practitioner</u> <u>e-file</u> (500) %	<u>Paper</u> (500) %
Total Definitely/Probably Would Not Free File In The Future				
<u>Total Who Had No Suggestions For Improvement</u>	<u>57</u>	<u>55</u>	<u>62</u>	<u>60</u>
<u>Total Suggested Any Improvement</u>	<u>43</u>	<u>45</u>	<u>38</u>	<u>40</u>
Top Mentions...				
<u>Make it easier/less complicated to use</u> (net) <i>(Includes mentions of make it easier to get onto the site, make it more user-friendly, eliminate third parties, save info from year to year, improve navigation, and allow more forms)</i>	<u>11</u>	<u>12</u>	<u>7</u>	<u>13</u>
IRS needs to increase Taxpayer awareness of Free File	6	8	6	5
Need clear/better instructions at the site	5	5	4	5
Allow all-in-one Fed-State prep and submission	3	4	1	1
Don't tell us it's "free" when it's not really free	3	4	2	3
Expand qualification criteria	3	3	1	3

Regular Mail Is The Best Way To Reach Migrators

- When Migrators were asked to choose the best ways for IRS to communicate with them about filing Federal Tax Returns, their top mention – overwhelmingly – was “in the mail” or regular mail (with 76% mentions). Next came e-mail (at 23%), with all other mentions at 14% or lower.
- Note that there were very few differences in communications methods across the three segments.

Best Methods Of Communicating With Free File Migrators

	Total <u>Migrators</u> (1000) %	Other <u>OLF</u> (594) %	<u>Migrated To...</u> Practitioner	
			<u>e-file</u> (500) %	<u>Paper</u> (500) %
<u>Best Way To Be Contacted By The IRS</u>				
In the mail	76	76	78	76
Via e-mail	23	26	19	17
From the IRS’s website – irs.gov	14	15	14	18
Be available for you to pick up at a post office/library	10	10	12	13
From news articles	5	6	6	5
From advertising	5	5	7	5
From software companies	3	3	3	3
From contact with an IRS tax specialist/IRS employee	3	2	4	2
From other Internet websites	2	3	2	1
Via electronic bulletin board	2	2	2	2
Be available for you to pick up at an IRS office	2	2	3	3

Q17: If the IRS wanted to send you information about filing Federal Tax Returns how would you prefer to receive this information?

There Are Gender And Age Differences In Migrator Segments

- The survey captured three pieces of demographic information on Migrators – two of which may be helpful in understanding how the three segments differ. One was gender, which showed Practitioner e-file Migrators skewing more Female than other Migrators, while Paper users skewed more Male. In terms of age, those migrating to Other OLF Methods were older, while Practitioner e-file users were younger. There were no differences across segments in the third data point – IRS area.

Demographic Characteristics Of Free File Migrators

	Total <u>Migrators</u>	Other <u>OLF</u>	<u>Migrated To...</u> Practitioner <u>e-file</u>	<u>Paper</u>
Total Respondents	(1000) %	(594) %	(500) %	(500) %
<u>Gender</u>				
Male	46	46	42	51
Female	54	54	58	49
<u>Mean Age</u>	40.5	41.2	37.6	39.0
<u>IRS Area:</u>				
Area 1	18	19	18	20
Area 2	36	37	35	34
Area 3	23	22	22	23
Area 4	15	15	14	15
Area 5	7	8	10	8

- Q1: For the record, are you male or female?
 Q2: Which of the following categories best describes your age?

Other Differences Between Migrator Segments

- Finally, data appended to the IRS sampling lists for the study showed other differences between segments which are summarized in data form below and on the next page.

Characteristics Of Free File Migrators Appended To IRS Sampling Lists

		Total Migrators	Other OLF	Migrated To... Practitioner e-file	Paper
		(1000)	(594)	(500)	(500)
		%	%	%	%
Total Respondents					
Return Type:	Simple	21	0	0	100
	Intermediate	59	100	0	0
	Complex	20	0	100	0
Form Type:	1040EZ	26	25	14	43
	1040A	23	25	23	17
	1040	52	50	63	41
% Of Returns Which Were V-Coded:		9	0	0	46
Filing Status:	Single	60	57	59	76
	Married filing jointly	24	28	17	17
	Head of household	15	15	23	6
	Married filing separately	1	1	1	2
Preparer Type:	Self or VITA prepared tax return	78	100	2	88
	Paid prepared tax return	22	0	98	12

Source: Data appended to IRS sampling lists.

Other Differences Between Segments (Cont'd.)

Characteristics Of Free File Migrators Appended To IRS Sampling Lists

	Total <u>Migrators</u> (1000) %	Other <u>OLF</u> (594) %	<u>Migrated To...</u> Practitioner	
			<u>e-file</u> (500) %	<u>Paper</u> (500) %
Total Respondents				
<u>Signature Method:</u>				
Online Self Select PIN Form	46	77	0	0
Paper Return	21	0	0	100
Practitioner PIN Program Form w/IRS e-file Authentication	18	0	88	0
Regular Online Filing Form	14	23	0	0
Filed by ERO That Requires F8453	2	0	11	0
Self Select PIN by ERO Form	0	0	1	0
<u>Bank Information:</u>				
No bank product issued	66	89	68	0
RAL	4	0	20	0
RAC	10	11	12	0
Paper return	21	0	0	100
<u>Direct Deposit:</u>				
Direct debit	2	3	1	0
No direct debit	78	97	99	0
Paper return	21	0	0	100

Source: Data appended to IRS sampling lists.